



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 11/1/2002

GAIN Report #AR2064

Argentina

Dairy and Products

Annual

2002

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Report Highlights:

Argentine dairy exports for 2003 are projected to drop 16 percent as result of a significant fall in production. The main export product by far will still be dry whole milk, which is expected to go primarily to Brazil. The devaluation in early 2002 has improved Argentina's competitiveness in the world market. However, it has hurt dairy production considerably as returns for crop production are much higher and have made most dairymen to either feed cows less silage and grains or directly to move part or all the land into crops. Dairy imports are also expected to suffer the consequences of the devaluation as prices of imported products have become too expensive for a population which has lost significant purchasing power.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Buenos Aires [AR1], AR

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SECTION I. SITUATION AND OUTLOOK

Trade

Argentine total dairy exports for 2003 are forecast to decline by 16 percent (in equivalent liters) because of a continued and significant drop in milk production, despite enhanced export competitiveness created by the devaluation of the peso in early 2002. Although the export volume will be the lowest since 1997, it will still account for approximately 18 percent of total milk output, one of the highest ratios ever. (Exports in the past five years have accounted for 14 to 21 percent of total production). The main reason for this is that domestic consumption deteriorated significantly in 2002 and is expected to weaken further in 2003. Exports in these two years are at the expense of a sluggish domestic market.

Dry whole milk (DWM) is by far the main product which Argentina is expected to export in 2003. Although lower than in 2002 due to projected smaller output, shipments are projected to be close to 100,000 MT. The main markets are expected to be primarily Brazil followed by Algeria. There is also a group of countries which in the past purchased small quantities but after the devaluation have increased significantly their purchases and are forecast to continue in 2003. These are Jordan and Oman in the Middle East, Senegal, Nigeria and Congo in Africa and Indonesia and Malaysia in Southeast Asia. Most traders expect world dry milk prices to increase in 2003 from the current low levels. The average export price of DWM in the first 7 months of 2002 was \$1,520 - 25 percent lower than for the same period last year.

Cheese and nonfat dry (NFDM) exports are also expected to decline in 2003. Exports of both products are projected at 18,000 MT each. The main markets for cheese are expected to be the United States, through its tariff rate quota, and Brazil. Other important markets will be Mexico and Chile. FOB cheese prices are also expected to increase next year. The average export price through July 2002 was \$2,330 - 20 percent lower than last year. After the devaluation there were very few shipments to new markets. NFDM markets are significantly less than for DWM (18 against 55). The main markets are expected to be Mexico (whose government recently approved the largest two Argentine processors as suppliers of dry milk for its social welfare programs), Brazil and Chile. Indonesia and Malaysia are two new markets which are forecast to purchase NFDM from Argentina in 2003. Argentina's average FOB export price in the first 7 months of 2002 was \$1,560 - 28 percent lower than last year.

Until December 2001, under the ten year long convertibility program which pegged the peso to the dollar at 1:1, dairy exports were primarily the surplus of the domestic market. In many cases exports were done at a loss. In early 2002, the Argentine peso was devalued and by mid-year the exchange rate was at 3.6 pesos to a dollar (since then it has stabilized). Inflation during the first 10 months was 40 percent and farmgate milk prices increased 130 percent. Most other costs for dairy processors increased only marginally. Processors became very competitive in world prices with

excellent returns. With a recessive domestic market and increased retail prices, most processors, and a few large dairies, went out aggressively to capture new markets and expand old ones. Exports (of dry milk, cheese and fluid milk) through July 2002 were 50 percent higher than the same period of 2001. However, total exports in 2002 are expected to increase only 30-35 percent for the entire year as exports are expected to slow down in the last part of the year.

Argentine dairy products are recognized worldwide as of good quality. In January 2003 it will be one year without any foot and mouth disease outbreak. Several markets had closed temporarily in 2000 after the government's announcement of a widespread outbreak, but this limitation no longer exists.

Argentina's dairy sector grew 60 percent in the 90's as result of a growing economy (and demand) and huge investment in the sector, at both the farm and processing level. Argentina was solidly becoming the dairy supplier of Latin America and expanding to other markets. However, the strong economic recession which began four years ago with the Korean Crisis and later in early 1999 with the strong devaluation of the Brazilian currency, the sector started to suffer from weaker retail prices. High milk production, weak prices and an overvalued currency which did not encourage exports began to put negative pressure on farmgate milk prices. Returns at the farm level and to processors dropped significantly, hurting milk production, which by late 2001 had fallen almost 8 percent since 1999 (after increasing 8 years in a row). The devaluation which began in January 2002, added extra pressure on milk production as the price of feed (primarily grains) increased almost in the same proportion as the devaluation and the competition for land favored crop production over dairy production. These two factors are pushing back production to the level of eight years ago. The rapid dismantling of part of the local dairy sector will limit the export potential of Argentina for several years until domestic demand begins to recover. Total milk production projected for 2003 is below the average domestic consumption of 1996-2001.

After the devaluation which improved the competitiveness of local exports, the government, in need of revenues, applied export taxes and reduced export rebates. It also reduced import duties. The following table shows current rates and those of a year ago:

HTS Code	Description	Import Duty 2001 %	Import Duty 2002 %	Export Rebate 2001 %	Export Rebate 2002 %	Export Tax 2001 %	Export Tax 2002 %
040120	Milk, UHT	28.0	15.5	6.8	3.4	0	5.0
040221	Dry milk, nonfat	28.0	17.5	6.8	3.4	0	5.0
040310	Yogurt	28.0	17.5	9.0	4.5	0	5.0
040410	Whey	16.5	15.5	8.1	4.05	0	5.0
040510	Butter	28.0	17.5	9.0	4.5	0	5.0
040610	Cheese	28.0	17.5	9.0	4.5	0	5.0

Dairy imports (for cheese and dry milk) for 2003, as well as 2002, are projected to be negligible as the strong devaluation combined with a deep recession turn imported products very expensive for a population which has lost purchasing power. Only two large international companies import fermented milk ready for consumption from Brazil for an estimated value of \$8 million a year. A partial recovery of some imported products is possible in the medium term as the economy begins to grow again and if the value of the peso strengthens as many predict. Imports of some dairy ingredients are expected to remain relatively strong. Products such as butter oil and whey continue to be imported, for a total of \$2.0 million in the first 7 months of 2002, of which half was purchased in the U.S.

Production

Argentine milk production for 2003 is forecast at 7.7 million metric tons (MMT), the lowest since 1994. Due to the economic recession affecting the country in the past four years, returns in the sector were low and thus affected output marginally. However, in early 2002, when the local currency was devalued, the sector was immersed in a complicated situation which has affected severely milk production and will do so in 2003 as well. The effects of the devaluation impacted the dairy sector as follows: 1) a rapid increase in retail prices, which grew between 60 and 100 percent in the period January-July, mostly as a result of an export upsurge and higher costs of some inputs (mainly packaging and milk); 2) inflation through October 2002 was 40 percent, with salary increases well below that percentage, forcing purchasing power to decline and thus demand; 3) continued growing unemployment, which also affected demand; 4) farmgate milk prices increased 130 percent; 5) feed costs increased dramatically as grain and oilseed prices increased in step with the devaluation (except for a discount due to the implementation of export taxes of 20 percent); 6) despite better returns in the dairy sector, profitability of crop production is generally higher creating incentive to switch away from dairy production.

The scenario changed completely after the devaluation in early 2002. Most dairymen stopped or reduced feeding silage and grains and went back to a more pasture-based nutrition. This factor has reduced cow yields between 10 and 15 percent. The extremely high profitability in cropping has made many dairy operations close or reduce their area devoted to milk production to a minimum. For example, in the center of the province of Santa Fe, where most operations are small and need rented land to have a decent scale, producers are struggling to maintain those fields as landowners prefer to rent it for crop production which is much more profitable. Another factor affecting production in 2002 has been the very rainy weather which has affected vast areas in Buenos Aires province which were already heavily saturated. With production going back to the old style alfalfa pasture production, the system is more dependent on weather factors and thus more unstable and cyclical.

The following table shows a comparison of net results between different alternatives in October 2001 and 2002:

	10/2002 US\$/Ha	10/2001 US\$/Ha
Dairy	32	6
Corn	218	18
Soybeans	224	106

Output of dairy products in 2003 are forecast to drop as a result of lower milk supply. Cheese is expected to fall the most as the loss of purchasing power will affect its consumption to the greatest degree. Production of dry milk will also fall but more moderately. Dry milk has great flexibility of use. It can be exported, sold to the local food industry and/or used by the same dairy processors. A few manufacturers will retain more dry milk to partially offset next year's production drop.

The structure of the industry is quite the same as before the crisis and in general, still modern. However, the larger companies have lost some of their share of milk production to the hands of smaller, regional processors, who have much more flexible structures and whose distribution and tax controls are not as tight. Also a few very large dairy farms are drying milk and exporting. Under the current situation, we foresee the closing down of some plants in hands of the large processors because a drop in milk production and smaller sales in the domestic market. We expect to see new investment in the small regional processors, focusing on better quality and expanding capacity. Returns in the industry are good, however, most of the large processors are negotiating their large debts (of credits used for investment), with international entities.

Farmgate milk prices for 2003 are forecast to increase to US\$0.11-0.13 per liter as result of the drop in production and strong exports, as compared to prices in October 2002 which ranged between US\$0.09-0.10 per liter. Dairy processors not only will compete strongly to retain producers, but local traders are also expecting higher world dairy prices in 2003, which will push retail prices a step higher, forcing domestic consumption even lower. Local demand of dairy products in 2002 is estimated to fall 16 percent, similar to the level of 10 years ago, as retail price increases of 60-100 percent in the first semester, accompanied by only small increases in consumers' income have negatively affected consumption.

The exchange rate for 2003 is expected to remain high, but probably somewhat lower than the current level. Although very difficult to predict in such a volatile market, and especially with Presidential elections next March, inflation in 2003 is projected at about 40-50 percent.

After many years with out any government intervention, the Secretariat of Agriculture has decided to create the National Program of Dairy Policy. The program's goal is to create an environment in which the problems of the sector can be discussed. The current main issues are taxes, market transparency and support of international negotiations. It will also work on defining dairy policy in the medium and long term. Argentina does not have a dairy promotional board, although every now and then it is discussed but so far with no results.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Cows In Milk	2450	2450	2400	2300	0	2150
Cows Milk Production	9600	9500	9200	8200	0	7700
Other Milk Production	0	0	0	0	0	0
TOTAL Production	9600	9500	9200	8200	0	7700
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	8	0	0	0	0
TOTAL Imports	0	8	0	0	0	0
TOTAL SUPPLY	9600	9508	9200	8200	0	7700
Intra EC Exports	0	0	0	0	0	0
Other Exports	8	7	5	10	0	8
TOTAL Exports	8	7	5	10	0	8
Fluid Use Dom. Consum.	2250	2350	2200	2060	0	2030
Factory Use Consum.	7342	7151	6995	6130	0	5662
Feed Use Dom. Consum.	0	0	0	0	0	0
TOTAL Dom. Consumption	9592	9501	9195	8190	0	7692
TOTAL DISTRIBUTION	9600	9508	9200	8200	0	7700
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Milk, Fluid		
Time period	Year	Units:	MT
Exports for:	2001	Through August	2002
U.S.	0	U.S.	0
Others		Others	
Brazil	5850		7876
Peru	821		367
Paraguay	131		57
Bolivia	81		23
Angola	10		22
Chile	320		12
China	1		6
Uruguay	11		4
Total for Others	7225		0
Others not Listed	1		
Grand Total	7226		0

Import Trade Matrix			
Country	Argentina		
Commodity	Dairy, Milk, Fluid		
Time period	Year	Units:	MT
Imports for:	2001	Through August	2002
U.S.	18	U.S.	0
Others		Others	
Uruguay	8534		171
Chile	22		
Peru	4		
Total for Others	8560		0
Others not Listed			
Grand Total	8578		0

Prices Table			
Country	Argentina		
Commodity	Dairy, Milk, Fluid		
Prices in	Pesos	per uom	Liter
Year	2001	2002	% Change
Jan	0.76	0.79	3.95%
Feb	0.76	0.92	21.05%
Mar	0.77	1.03	33.77%
Apr	0.78	1.14	46.15%
May	0.78	1.18	51.28%
Jun	0.77	1.26	63.64%
Jul	0.77	1.29	67.53%
Aug	0.77	1.29	67.53%
Sep	0.78		-100.00%
Oct	0.78		-100.00%
Nov	0.77		-100.00%
Dec	0.77		-100.00%
Exchange Rate	3.6/US\$	Local currency/US \$	

PSD Table						
Country	Argentina					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	26	26	30	34	26	33
Production	435	440	420	370	0	340
Intra EC Imports	0	0	0	0	0	0
Other Imports	7	6	6	1	0	1
TOTAL Imports	7	6	6	1	0	1
TOTAL SUPPLY	468	472	456	405	26	374
Intra EC Exports	0	0	0	0	0	0
Other Exports	12	18	15	22	0	18
TOTAL Exports	12	18	15	22	0	18
Human Dom. Consumption	426	420	415	350	0	330
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	426	420	415	350	0	330
TOTAL Use	438	438	430	372	0	348
Ending Stocks	30	34	26	33	0	26
TOTAL DISTRIBUTION	468	472	456	405	0	374
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Cheese		
Time period	Year	Units:	MT
Exports for:	2001	Through August	2002
U.S.	5753	U.S.	4722
Others		Others	
Brazil	3031		3919
Mexico	5380		2516
Chile	566		1188
Paraguay	1393		435
Peru	621		435
Malta	137		217
Uruguay	27		155
Morocco	72		135
Bolivia	314		98
Spain	0		87
Total for Others	11541		0
Others not Listed	252		
Grand Total	17546		4722

Import Trade Matrix			
Country	Argentina		
Commodity	Dairy, Cheese		
Time period	Year	Units:	MT
Imports for:	2001	Through August	2002
U.S.	187	U.S.	29
Others		Others	
Brazil	1523		587
Uruguay	2716		50
France	291		9
Denmark	632		8
Total for Others	5162		0
Others not Listed	381		
Grand Total	5730		29

Prices Table			
Country	Argentina		
Commodity	Dairy, Cheese		
Prices in	Pesos	per uom	Kilo
Year	2001	2002	% Change
Jan	3.85	3.75	-2.60%
Feb	3.94	3.95	0.25%
Mar	4.11	4.55	10.71%
Apr	4.4	5.57	26.59%
May	4.53	6.03	33.11%
Jun	4.63	6.3	36.07%
Jul	4.52	6.59	45.80%
Aug	4.34	6.99	61.06%
Sep	4.17	7.04	68.82%
Oct	3.91		-100.00%
Nov	3.71		-100.00%
Dec	3.72		-100.00%
Exchange Rate	3.6/US\$	Local currency/US \$	

PSD Table						
Country	Argentina					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	8	8	14	10	14	8
Production	44	40	40	32	0	30
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	52	48	54	42	14	38
Intra EC Exports	0	0	0	0	0	0
Other Exports	18	18	20	20	0	18
TOTAL Exports	18	18	20	20	0	18
Human Dom. Consumption	20	20	20	14	0	13
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	20	20	20	14	0	13
TOTAL Use	38	38	40	34	0	31
Ending Stocks	14	10	14	8	0	7
TOTAL DISTRIBUTION	52	48	54	42	0	38
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	Year	Units:	MT
Exports for:	2001	Through August	2002
U.S.	0	U.S.	0
Others		Others	
Brazil	7805		4683
Mexico	5941		3240
Chile	4090		2615
Indonesia	0		1000
Malaysia	25		750
Morocco	64		240
Peru	445		175
Paraguay	369		163
France	0		75
Thailand	225		50
Total for Others	18964		0
Others not Listed	831		
Grand Total	19795		0

Import Trade Matrix			
Country	Argentina		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	Year	Units:	MT
Imports for:	2001	Through August	2002
U.S.		U.S.	0
Others		Others	
Uruguay	59		0
Total for Others	59		0
Others not Listed			
Grand Total	59		0

Prices Table			
Country	Argentina		
Commodity	Dairy, Milk, Nonfat Dry		
Prices in	Pesos	per uom	400 grams
Year	2001	2002	% Change
Jan	2.73	2.86	4.76%
Feb	2.73	2.9	6.23%
Mar	2.74	3.13	14.23%
Apr	2.74	3.46	26.28%
May	2.71	3.94	45.39%
Jun	2.79	4.14	48.39%
Jul	2.85	4.25	49.12%
Aug	2.86	4.34	51.75%
Sep	2.86	4.4	53.85%
Oct	2.84		-100.00%
Nov	2.88		-100.00%
Dec	2.87		-100.00%
Exchange Rate	3.6/US\$	Local currency/US \$	

PSD Table						
Country	Argentina					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	27	27	38	38	34	32
Production	195	185	185	180	0	170
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	1	0	0	0	0
TOTAL Imports	0	1	0	0	0	0
TOTAL SUPPLY	222	213	223	218	34	202
Intra EC Exports	0	0	0	0	0	0
Other Exports	90	85	95	116	0	100
TOTAL Exports	90	85	95	116	0	100
Human Dom. Consumption	94	90	94	70	0	68
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	94	90	94	70	0	68
TOTAL Use	184	175	189	186	0	168
Ending Stocks	38	38	34	32	0	34
TOTAL DISTRIBUTION	222	213	223	218	0	202
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Argentina		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Year	Units:	MT
Exports for:	2001	Through August	2002
U.S.	0	U.S.	0
Others		Others	
Brazil	29987		44398
Algeria	7410		13855
Jordan	6017		4808
Venezuela	4047		3405
Senegal	1625		2398
Oman	1300		2050
Nigeria	1249		1981
Chile	3573		1909
Paraguay	2695		1478
Congo	100		920
Total for Others	58003		0
Others not Listed	26696		
Grand Total	84699		0

Import Trade Matrix			
Country	Argentina		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Year	Units:	MT
Imports for:	2001	Through August	2002
U.S.	0	U.S.	1
Others		Others	
Uruguay	450		
Total for Others	450		0
Others not Listed			
Grand Total	450		1